



# Canadian Pacific Railway Annual Report 2018

**Form 10-K (NYSE:CP)**

Published: February 16th, 2018

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K**

(Mark one)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934**  
For fiscal year ended December 31, 2017  
OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 001-01342

**Canadian Pacific Railway Limited**

(Exact name of registrant as specified in its charter)

**Canada**  
(State or Other Jurisdiction  
of Incorporation or Organization)

**98-0355078**  
(IRS Employer  
Identification No.)

**7550 Ogden Dale Road S.E.,  
Calgary, Alberta, Canada**  
(Address of Principal Executive Offices)

**T2C 4X9**  
(Zip Code)

**Registrant's Telephone Number, Including Area Code: (403) 319-7000**  
**Securities registered pursuant to Section 12(b) of the Act:**

Title of Each Class	Name of Each Exchange on which Registered
Common Shares, without par value	New York Stock Exchange
<b>Securities registered pursuant to Section 12(g) of the Act: None</b>	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth  
company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of June 30, 2017 the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the voting stock held by non-affiliates of the registrant, in U.S. dollars, was \$23,490,374,139, based on the closing sales price per share as reported by the New York Stock Exchange on such date.

As of the close of business on February 14, 2018, there were 144,212,716 shares of the registrant's Common Stock outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Not applicable.

#### **EXPLANATORY NOTE**

Canadian Pacific Railway Limited ("CPRL"), a corporation incorporated under the *Canada Business Corporations Act*, qualifies as a foreign private issuer in the U.S. for purposes of the *Securities Exchange Act of 1934*, as amended (the "Exchange Act"). Although as a foreign private issuer the Company is no longer required to do so, the Company currently continues to file annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K with the Securities and Exchange Commission ("SEC") instead of filing the reporting forms available to foreign private issuers.

CPRL prepares and files a management proxy circular and related material under Canadian requirements. As the Company's management proxy circular is not filed pursuant to Regulation 14A, the Company may not incorporate by reference information required by Part III of this Form 10-K from its management proxy circular. Accordingly, in reliance upon and as permitted by Instruction G(3) to Form 10-K, the Company will be filing an amendment to this Form 10-K containing the Part III information no later than 120 days after the end of the fiscal year covered by this Form 10-K. All references to our websites contained herein do not constitute incorporation by reference of information contained on such websites and such information should not be considered part of this document.

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**CANADIAN PACIFIC RAILWAY LIMITED**  
**FORM 10-K**  
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## PART I

### ITEM 1. BUSINESS

#### Company Overview

Canadian Pacific Railway Limited ("CPRL"), together with its subsidiaries ("CP" or the "Company"), owns and operates a transcontinental freight railway in Canada and the United States ("U.S."). CP's diverse business mix includes bulk commodities, merchandise freight and intermodal traffic over a network of approximately 12,500 miles, serving the principal business centres of Canada from Montreal, Quebec, to Vancouver, British Columbia ("B.C."), and the U.S. Northeast and Midwest regions. Agreements with other carriers extend the Company's market reach east of Montreal in Canada, through the U.S. and into Mexico. For additional information regarding CP's network and geographical locations, refer to Item 2. Properties.

CPRL was incorporated on June 22, 2001, under the Canada Business Corporations Act and controls and owns all of the Common Shares of Canadian Pacific Railway Company ("CPRC"), which was incorporated in 1881 by Letters Patent pursuant to an Act of the Parliament of Canada. The Company's registered, executive and corporate head office is located at 7550 Ogden Dale Road S.E., Calgary, Alberta T2C 4X9. CP's Common Shares are listed on the Toronto Stock Exchange ("TSX") and the New York Stock Exchange ("NYSE") under the symbol "CP".

For purposes of this report, all references herein to "CP," "the Company," "we," "our" and "us" refer to CPRL, CPRL and its subsidiaries, CPRL and one or more of its subsidiaries, or one or more of CPRL's subsidiaries, as the context may require. All references to currency amounts included in this annual report, including the Consolidated Financial Statements, are in Canadian dollars unless specifically noted otherwise.

#### Strategy

In 2012, CP began a transformational journey to become the best railroad in North America, with a long-term strategy centred on five key foundations:

- **Provide Service:** Providing efficient and consistent transportation solutions for the Company's customers. "Doing what we say we are going to do" is what drives CP in providing a reliable product with a lower cost operating model. Centralized planning aligned with local execution is bringing the Company closer to the customer and accelerating decision-making.
- **Control Costs:** Controlling and removing unnecessary costs from the organization, eliminating bureaucracy and continuing to identify productivity enhancements are the keys to success.
- **Optimize Assets:** Through faster train speeds, improved asset utilization and increased train lengths, the Company is moving increased volumes with fewer locomotives and cars while unlocking capacity for future growth potential.
- **Operate Safely:** Each year, CP safely moves millions of carloads of freight across North America while ensuring the safety of our people and the communities through which we operate. Safety is never to be compromised. CP strives for continuous implementation of state-of-the-art safety technology, safety management systems, and safety culture with our employees to ensure safe, efficient operations across our network.
- **Develop People:** CP recognizes that none of the other foundations can be achieved without its people. Every CP employee is a railroader and the Company is shaping a new culture focused on a passion for service with integrity in everything it does. Coaching and mentoring managers into becoming leaders will help drive CP forward.

During the turnaround, CP transformed its operations by investing in the network and executing a precision railroading model that lowers costs, optimizes assets, and provides better, more competitive service.

Today, the long-term strategy remains the same: leverage our lower cost base, network strengths and improved service to drive sustainable, profitable growth. While the accomplishments during the turnaround were tremendous, CP's journey to become North America's best-performing rail carrier is far from over. We continue to build on this strong foundation, focused on the next level of productivity, service, and innovation to generate value for our customers and deliver results for our shareholders.

#### Business Developments

As of June 30, 2017, CP qualified as a foreign private issuer in the U.S. for purposes of the Exchange Act as a result of changes to the Company's Board, as evaluated at June 30, 2017. Although as a foreign private issuer CP is no longer required to do so, the Company currently continues to file annual reports on the Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K with the SEC instead of filing the reporting forms available to foreign private issuers. The Company prepares and files a management proxy circular and related material under Canadian requirements.

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### **Change in Executive Officers**

On October 17, 2017, the Board of Directors appointed Mr. Nadeem Velani to the position of Executive Vice-President and Chief Financial Officer ("CFO") from the position of Vice-President and CFO, and Mr. Laird Pitz to the position of Senior Vice-President and Chief Risk Officer ("CRO") from the position of Vice-President and CRO.

On May 1, 2017, Peter J. Edwards retired from the Company from the position of Vice-President, People.

On February 14, 2017, the Company appointed Mr. John Brooks as Chief Marketing Officer ("CMO").

On January 27, 2017, Mr. Mark Wallace began a leave of absence from the Company and no longer served as Vice-President, Corporate Affairs and Chief of Staff of the Company. He subsequently resigned from CP.

On January 18, 2017, the Company announced Mr. Keith Creel as President and Chief Executive Officer ("CEO") of the Company, effective January 31, 2017, following the decision of Mr. E. Hunter Harrison to retire from CP.

### **Change in Board of Directors**

On November 9, 2017, Mr. William R. Fatt resigned from the Company's Board of Directors.

On January 31, 2017, Mr. E. Hunter Harrison resigned as a member of the Company's Board of Directors.

On January 1, 2017, Mr. Gordon Trafton II was appointed as a member of the Company's Board of Directors.

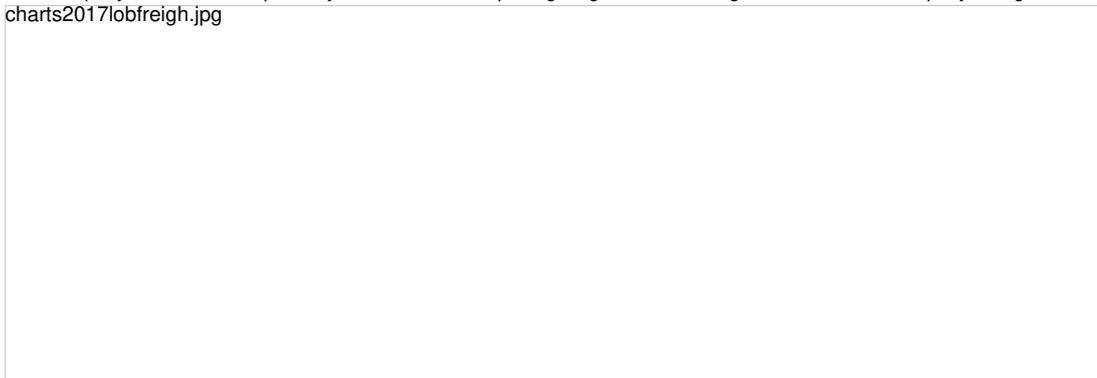
### **Operations**

The Company operates in only one operating segment: rail transportation. Although the Company provides a breakdown of revenue by business line, the overall financial and operational performance of the Company is analyzed as one segment due to the integrated nature of the rail network. Additional information regarding the Company's business and operations, including revenue and financial information, and information by geographic location is presented in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and Item 8. Financial Statements and Supplementary Data, Note 25 Segmented and geographic information.

### **Lines of Business**

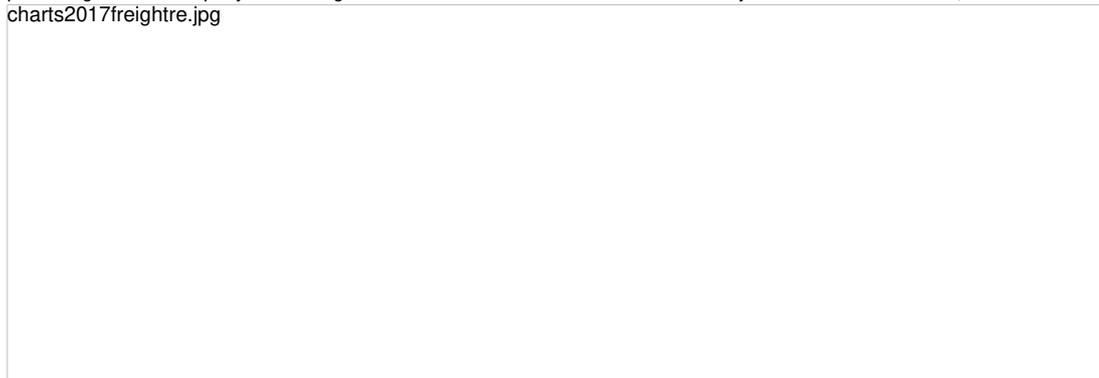
The Company transports bulk commodities, merchandise freight and intermodal traffic. Bulk commodities, which typically move in large volumes across long distances, include Grain, Coal, Potash, and Fertilizers and sulphur. Merchandise freight consists of industrial and consumer products, such as energy, chemicals, Metals, minerals and consumer products, Automotive and Forest products. Intermodal traffic consists largely of retail goods in overseas containers that can be transported by train, ship and truck and in domestic containers and trailers that can be moved by train and truck.

The Company's revenues are primarily derived from transporting freight. The following chart shows the Company's freight revenue by each line of business in 2017:  
charts2017lobfreigh.jpg



In 2017, the Company generated freight revenues totalling \$6,375 million (\$6,060 million in 2016 and \$6,552 million in 2015). The following charts compare the percentage of the Company's total freight revenues derived from each of the three major business lines in 2017, 2016 and 2015:

charts2017freightre.jpg

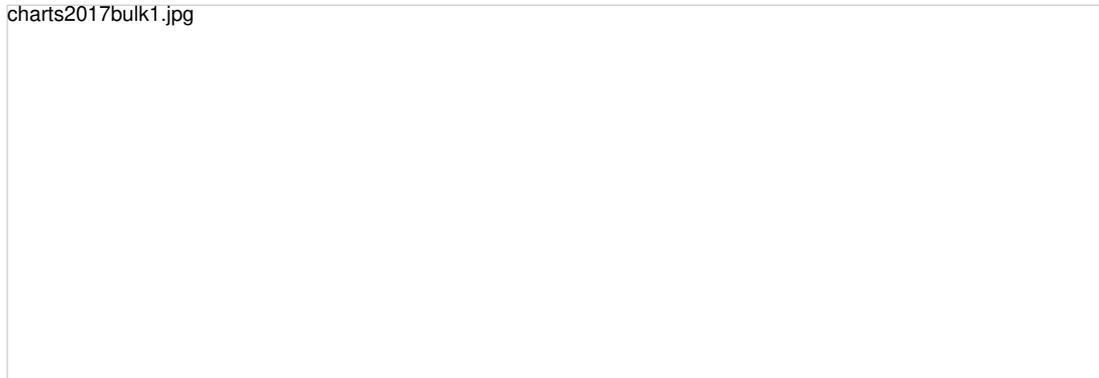


**BULK**

The Company's Bulk business represented approximately 44% of total freight revenues in 2017.

The following charts compare the percentage of the Company's Bulk freight revenues by commodity business in 2017, 2016 and 2015:

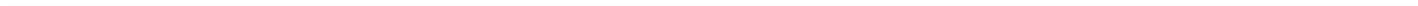
charts2017bulk1.jpg



*Grain*

The Company's grain business represented approximately 54% of Bulk revenues, which is 24% of total freight revenues in 2017.

The following charts compare the percentage of the Company's Grain freight revenues generated from Canadian and U.S. shipments in 2017, 2016 and 2015:



grain.jpg

CP's grain network is unique among railways in North America as it is strategically positioned in the heart of grain-producing regions of Western Canada and the Northern Plains of the U.S. Canadian grain transported by CP consists of both whole grains, such as wheat, canola, durum, soybeans and pulses, and processed products such as meals, oils and malt. This business is centred in the Canadian Prairies (Alberta, Saskatchewan and Manitoba), with grain shipped primarily west to the Port of Vancouver, and east to the Port of Thunder Bay for export. Grain is also shipped to the U.S., to eastern Canada, and to Mexico for domestic consumption.

Canadian grain includes a division of business that is regulated by the Canadian government through the Canada Transportation Act ("CTA"). This regulated business is subject to a maximum revenue entitlement ("MRE"). Under this regulation, railroads can set their own rates for individual movements. However, the MRE governs aggregate revenue earned by the railroad based on a formula that factors in the total volumes, length of haul, average revenue per ton and inflationary adjustments. The regulation applies to western Canadian export grain shipments to the ports of Vancouver and Thunder Bay.

U.S. grain transported by CP consists of both whole grains, such as wheat, durum, corn and soybeans, and processed products such as meals, oils and flour. This business is centred in the states of Minnesota, North Dakota, South Dakota, and Iowa. Grain destined for domestic consumption moves east via Chicago, to the U.S. Northeast or is interchanged with other carriers to the U.S. Pacific Northwest and U.S. Southeast. In partnership with other railroads, CP also moves grain to export terminals in the U.S. Pacific Northwest and the Gulf of Mexico. Export grain traffic is shipped to ports at Superior and Duluth.

#### *Coal*

The Company's Coal business represented approximately 22% of Bulk revenues, which is 10% of total freight revenues in 2017.

The following charts compare the percentage of the Company's Coal freight revenues generated from Canadian and U.S. shipments in 2017, 2016 and 2015:

financialcharts2017coal1.jpg

CP handles mostly metallurgical coal destined for export for use in the steelmaking process. CP's Canadian coal traffic originates mainly from Teck Resources Limited's mines in southeastern B.C. CP moves coal west from these mines to port terminals for export to world markets (Pacific Rim, Europe and South America), and east for the U.S. Midwest markets.

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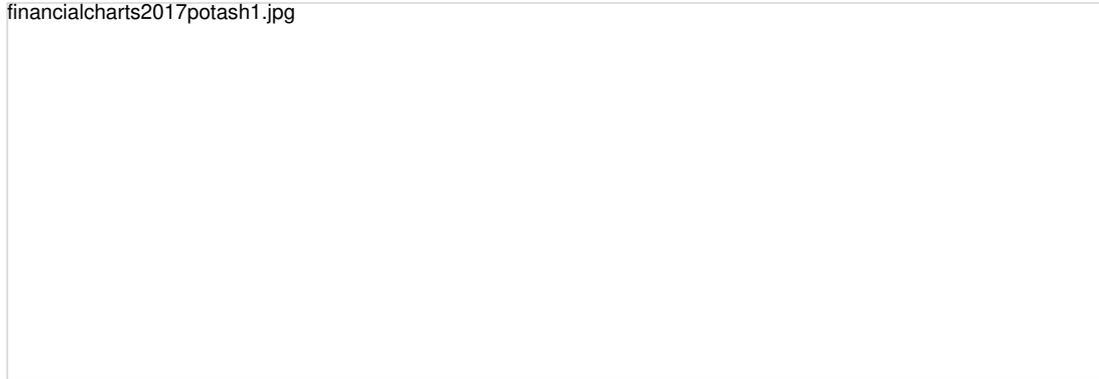
In the U.S., CP moves primarily thermal coal from connecting railways, serving the thermal coal fields in the Powder River Basin in Montana and Wyoming, which is delivered to power-generating facilities in the U.S. Midwest.

#### *Potash*

The Company's Potash business represented approximately 15% of Bulk revenues, which is 6% of total freight revenues in 2017.

The following charts compare the percentage of the Company's Potash freight revenues generated from domestic and export potash shipments in 2017, 2016 and 2015:

financialcharts2017potash1.jpg



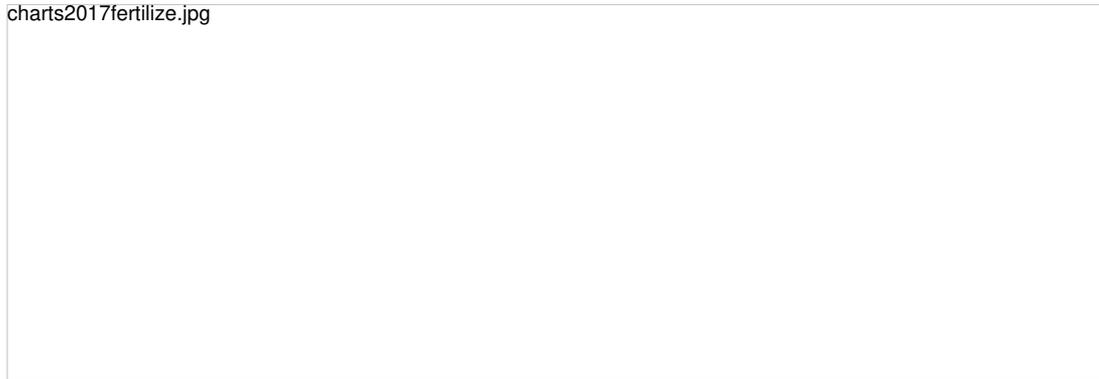
The Company's Potash traffic moves mainly from Saskatchewan to offshore markets through the ports of Vancouver, B.C., Portland and Thunder Bay, and to markets in the U.S. All potash shipments for export beyond Canada and the U.S. are marketed by Canpotex Limited, a joint venture among Saskatchewan's potash producers, and K+S Potash Canada. Independently, these producers move domestic potash with CP primarily to the U.S. Midwest for local application.

#### *Fertilizers and Sulphur*

The Company's Fertilizers and sulphur business represented approximately 9% of Bulk revenues, which is 4% of total freight revenues in 2017.

The following charts compare the percentage of the Company's Fertilizers and sulphur freight revenues generated from wet fertilizers, dry fertilizers, and sulphur transportation in 2017, 2016 and 2015:

charts2017fertilize.jpg



Dry fertilizers include: phosphate, urea, and ammonium sulphate and nitrate; wet fertilizers are primarily anhydrous ammonia. Roughly half of CP's fertilizer shipments originate from production facilities in Alberta, where abundant sources of natural gas and other chemicals provide feedstock for fertilizer production.

Most sulphur is produced in Alberta as a byproduct of processing sour natural gas, refining crude oil and upgrading bitumen produced in the Alberta oil sands. Sulphur is a raw material used primarily in the manufacturing of sulphuric acid, which is used most extensively

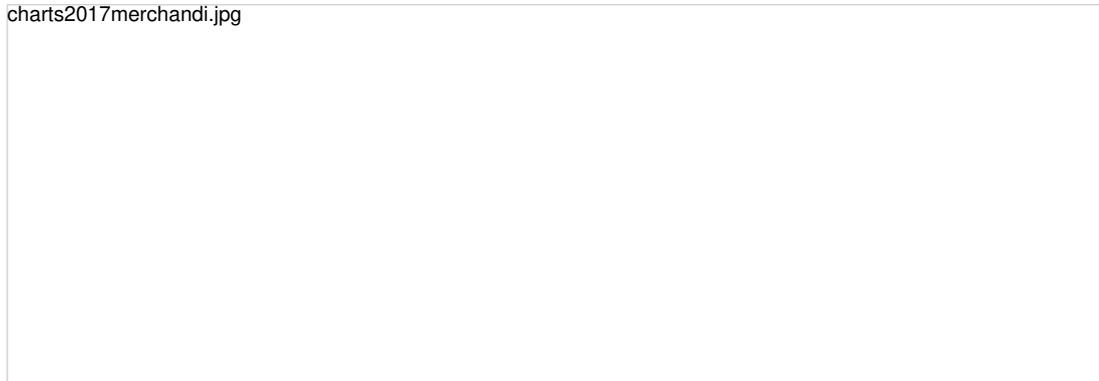
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in the production of phosphate fertilizers. Sulphuric acid is also a key ingredient in industrial processes ranging from smelting and nickel leaching to paper production.

**MERCHANDISE**

The Company's Merchandise business represented approximately 35% of total freight revenues in 2017.

The following charts compare the percentage of the Company's Merchandise freight revenue by commodity business in 2017, 2016 and 2015:

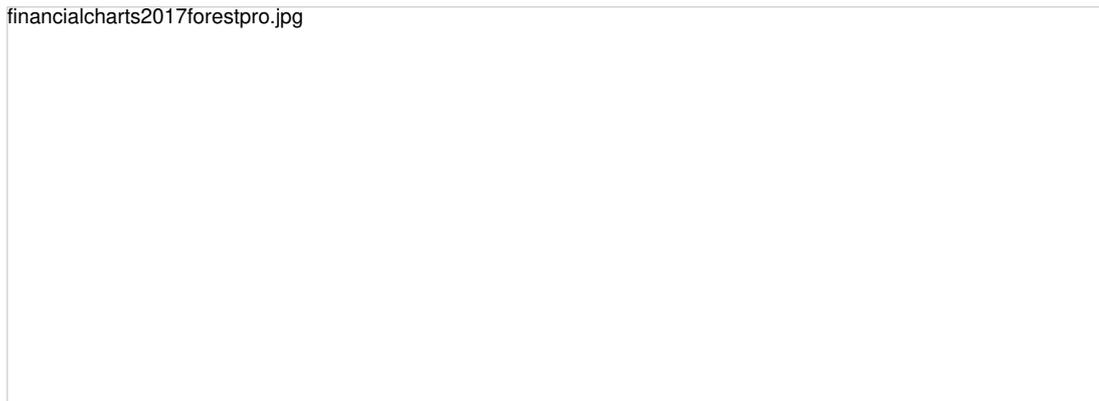


Merchandise products move in trains of mixed freight and in a variety of car types. Service involves delivering products to many different customers and destinations. In addition to traditional rail service, CP moves merchandise traffic through a network of truck-rail transload facilities, expanding the reach of CP's network to non-rail served facilities.

*Forest Products*

The Company's Forest products business represented approximately 12% of Merchandise revenues, which is 4% of total freight revenues in 2017.

The following charts compare the percentage of the Company's Forest products freight revenues generated from pulp and paper (wood pulp, paper, paperboard, newsprint), lumber and panel, and other shipments in 2017, 2016 and 2015:



Forest products traffic includes pulp and paper, and lumber and panel shipped from key producing areas in B.C., northern Alberta, northern Saskatchewan, Ontario and Quebec to destinations throughout North America.

**THIS DOCUMENT HAS BEEN TRUNCATED HERE AS IT'S SIZE EXCEEDS THE SYSTEM LIMIT**

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